

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2008 through the Fourth Quarter of 2011

The next few years will be even more challenging for the Idaho economy than had been previously thought. Its economic outlook has darkened due to newly available historical data which show the Gem State's economy grew weaker than anticipated during the middle of this year and prospects for the U.S. economy have cooled dramatically since this summer. The most notable change has to do with employment. In July 2008 DFM forecast Idaho nonfarm employment would decrease at a 0.4% annual rate in the second quarter of this year but rise at the same pace in the following quarter. Recent historical data shows we were too optimistic. Employment actually declined at a 1.7% annual clip in the second quarter and fell another 1.1% in the third quarter. As a result of these consecutive declines, Idaho nonfarm employment was approximately 4,100 lower than expected in this year's third quarter. Interestingly, Idaho nominal personal income was up slightly (\$14 million) from the previous forecast in the second quarter of 2008. However, this advantage disappears when it is adjusted for inflation.

The lower starting point for employment, along with the slower growing U.S. economy, paints a picture of disappointing future growth. Idaho nonfarm employment is expected to advance an average of 0.5% annually through 2011. However, using this growth rate masks the anticipated huge employment swings. To get a more accurate picture, the forecast horizon needs to be viewed in two parts, each covering two years. Idaho's employment situation is weakest in 2008 and 2009. In fact, employment is expected to shrink in both of these years, averaging just 642,807 jobs next year. Not only is this amount lower than in 2007, it is also below the amount forecast last July. To recap, the previous forecast showed nonfarm employment declining 0.2% this year and rising 0.7% next year, with a net result of 659,866 jobs in 2009—or about 17,100 more than in the current forecast.

The year after next is expected to be a transition year, with Idaho growing slowly as it begins to shake off the effects of the national recession. Idaho nonfarm employment is forecast to rise 1.4% in 2010. This pace is faster than the national growth rate, but it is slower than the 1.9% rate previously forecast for Idaho. As a result, the job gap that began in 2008 widens in 2010, so there are nearly 20,600 fewer jobs in 2010. Employment growth does improve to 2.9% in 2011, but this is barely above the 2.8% predicted in July 2008. Thus, in 2011, Idaho nonfarm employment stands at 670,812 jobs, which is about 20,000 lower than in the previous forecast.

Like employment, Idaho personal income can also be divided into two distinct periods based on growth. Unlike employment, however, Idaho nominal personal income does not decline. Specifically, it advances 3.4% in 2008 and 3.1% in 2009. The pace quickens to an average of about 5.0% per year in 2010 and 2011. As with employment, Idaho nominal personal income is lower and the gap between the two forecasts widens over time, so that it is \$1.2 billion lower in 2011. Adjusting for inflation, Idaho personal income is flat in 2008 then grows 1.6% in 2009, 2.3% in 2010, and 3.9% in 2011. Despite accelerating growth over the forecast period, Idaho real personal income fails to match the previous forecast's performance, and it is about \$600 million lower in 2011 compared to the July 2008 forecast.

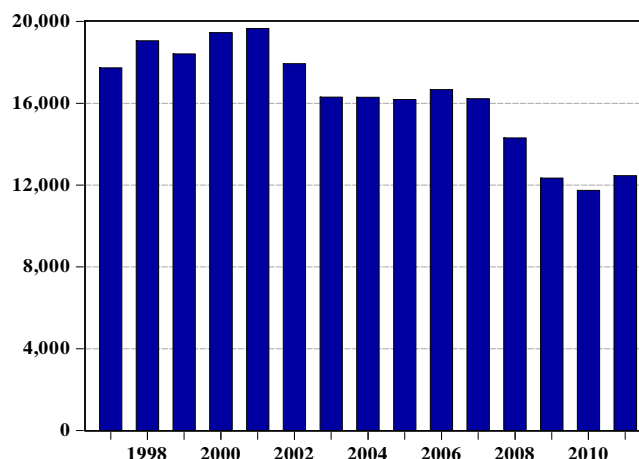
Idaho's growth after the national recession will be bittersweet. While it will be a welcome change from the hardships of 2008 and 2009, it will be a more subtle recovery than had been envisioned just three months ago.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Any hopes for a quick turnaround to the Gem State computer and electronics employment sector's current slump was dashed when Micron Technology announced in early October that it was reducing its global workforce by 15% in response to depressed prices for its products. According to company officials, about 1,500 jobs at the Boise plant will be lost by the beginning of next year as a result of the company shutting down its NAND memory operations. Market conditions which have driven the price of these products below the cost of manufacturing them were given as the reason for shutting down the NAND manufacturing operations. This

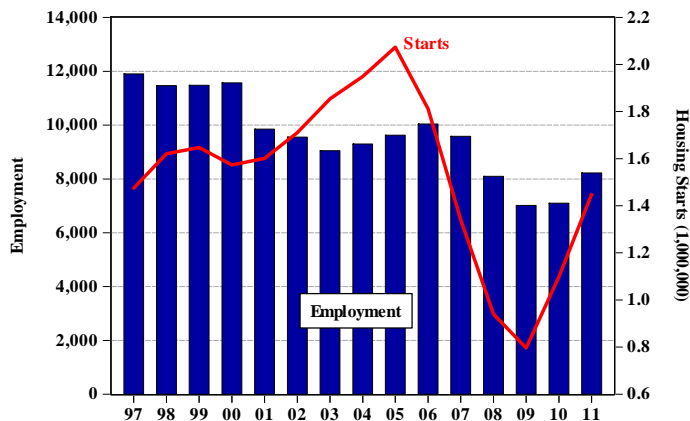
announcement came one week after the company had released its most recent quarterly earnings report that showed the company had a net loss of \$344 million on net sales of \$1.45 billion in the fourth quarter of its fiscal year 2008. The company also reported that it lost \$1.6 billion on sales of \$5.8 billion over the entire fiscal year. This is not the first time depressed prices have forced the company to reduce its payroll. In 2007, the company reduced its Idaho workforce by 1,100. Unfortunately, several factors suggest hurdles remain in this sector's road to recovery. The worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. In addition, this sector will be hamstrung by relatively lackluster U.S. business investment. While the news of Micron Technology's most recent round of layoffs dominate this sector, it should be noted there are a few bright spots. Hoku Scientific, Inc. is building a \$390 million plant to produce polycrystalline silicon in Pocatello. The plant is expected to start shipping product in 2009. Pocatello is also the new home for wind turbine manufacturer Nordic Windpower, Ltd. Unfortunately, these gains will not keep Idaho computer and electronics manufacturing employment from shrinking over most of the forecast horizon. Specifically, this sector's employment is expected to shrink 11.8% this year, fall another 13.8% next year, drop 4.9% the following year, and rise 6.1% in 2011. The net impact of these changes is this sector's employment declines from 16,219 in 2007 to 12,449 jobs in 2012.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: The national housing market collapse has and will continue to reduce demand for lumber and wood products. The weaker demand is evident in several measures. First, U.S. housing starts are expected to drop to levels not seen since right after the end of World War II. Second, wood product production is expected to decline about 12% both this year and next. Third, wholesale wood product prices are projected to drop in 2008 and 2009—continuing the slide which started in 2006. In contrast, they jumped over 10% in 2004 as the housing bubble inflated. One recent closure due to lower prices was the JD Lumber Mill in Priest River which closed in early October. About 200 jobs were lost because of the mill closure. Absent a strong demand counterweight, supply-side factors that have fueled a downward trend in Idaho logging and wood products employment will once again dominate this sector's outlook. There are several facets to the supply issue. One, is the dwindling timber supply from national forest in Idaho. According to U.S. Forest Service estimates, the harvest from national forests fell by 74% from 1996 to 2005. As a result, the national forests' share of Idaho's timber harvest shrank from 23.9% in 1996 to 8.4% in 2005. This decline has resulted in the closure of several

Idaho Wood Product Employment and U.S. Housing Starts

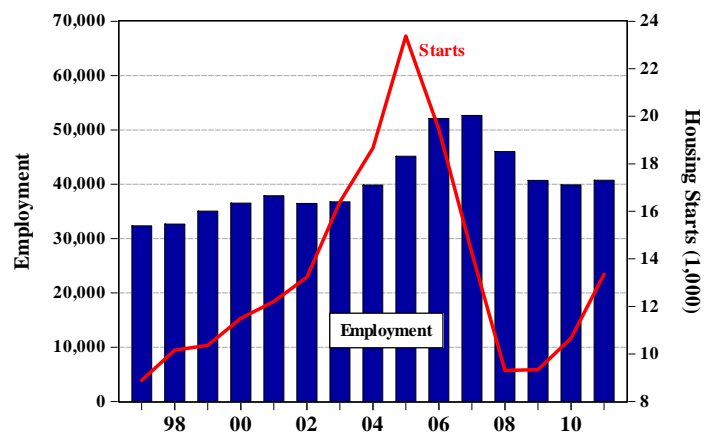


older mills around the state. Idaho is not the only area suffering; the entire inland region has fallen on hard times. The June 2008 edition of *Random Lengths Yardstick* reported there are about half as many mills in the inland region as there were twenty years ago and the inland region's share of North American (U.S. and Canada) production has dwindled from 18% to 8%. Two, despite the industry's downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Three, the industry has become more efficient in order to remain competitive. However, this gain means

mills need fewer workers. For example, production was virtually the same in 1996 and 2006 even though employment was 16.5% lower in 2006 than it was in 1996. Recently, Three Rivers Timber in Kamiah cut its staff by 35 persons. Despite this job contraction, the mill's output is expected to remain steady at about 80 million to 90 million board feet per year. The next few years will be challenging for the state's logging and wood products manufacturing sector. After declining by 4.6% in 2007, this sector's employment is expected to drop by 15.5% in 2008 and another 13.3% in 2009, resulting in just 7,000 jobs. It is expected to post job gains again in both 2010 and 2011 as the dust from the housing collapse settles. However, at around 8,200 jobs in 2011, it will be well below its peak of 10,000 jobs in 2006.

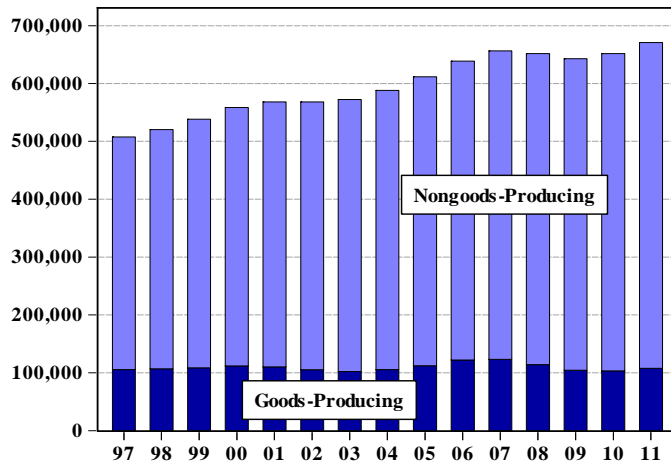
Construction: Recent data show Idaho's housing sector performed below projections earlier this year, leading to lower expectations for both housing starts and construction employment. In July 2008, it was anticipated that housing starts would recover quickly from its dismal showing of less than 9,000 units in the first quarter of 2008. This forecast proved to be too optimistic; second quarter housing starts were essentially flat. Evidence of the housing sector's weakness in the second quarter of this year was also evident in the employment data. Idaho construction employment was about 400 jobs below the previously forecasted amount. The second quarter's disappointing showing requires a recalibration of the housing starts and construction employment forecasts. The biggest changes involve the level of housing activity. In July 2008 it was forecast that Idaho housing starts would bottom out at 10,715 in 2008 then rise to just under 14,300 units in 2011. In the current forecast, housing starts go from a low of 9,305 units this year to 13,349 units in 2011. As in the previous forecast, Idaho construction employment is expected to decline in each year, but the drops will be steeper in the current forecast. Specifically, it is forecast to drop an average of 6.2% per year to 40,743 jobs in 2011. In contrast, construction employment in the

Idaho Construction Employment and Housing Starts



July forecast dropped an average of 4.9%. As a result, this sector's employment is about 2,300 lower in 2011 in the current forecast versus the previous one. It is nearly impossible to overstate how much these jobs will be missed. The construction sector has been one of the state's most reliable employment engines during Idaho's record economic expansion. Remarkably, Idaho construction employment has increased in 15 of the 16 years since 1991. In the current decade alone, construction employment has risen an average of 5.2% per year. The expected decline in construction employment is one of the reasons overall Idaho nonfarm employment stumbles this year and next and grows marginally in 2010.

Idaho Nonfarm Employment



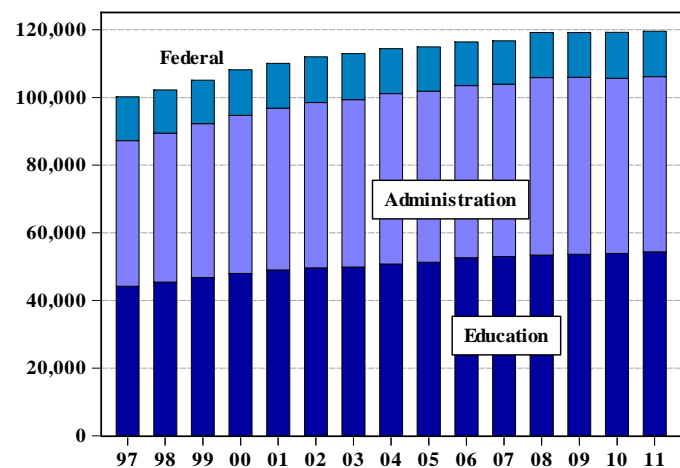
Nongoods-Producing Industries: Idaho's largest private employment sector, nongoods, should be an important counterweight to the anticipated job losses in other sectors of the state's economy. Industries in this sector can be divided into two broad categories: services and trade. The services category had an average of 304,483 jobs in 2007 and there were 111,657 trade jobs. Together they accounted for about 80% of the state's nonfarm jobs. The services category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services

employment has traditionally been the faster growing of the two categories, advancing an average of 3.7% annually over the last five years versus 2.8% for trade employment. Education and health services is one of the state's most consistent job engines because it is driven more by demographics than economics. This category should add jobs at a 3.3% average annual pace from 2008 to 2011. Professional and business services employment should expand an average of 1.6% per year over the forecast period. Leisure and hospitality services should grow 1.6% annually over the same period. This sector is vulnerable to high energy prices and weak discretionary consumer spending over the next couple of years. Other factors are also shaping this sector's near-term future. This industry suffered a setback when the owners of Tamarack Resort filed for bankruptcy protection earlier this year. The owners owe Credit Suisse \$273 million on a construction loan and \$22 million in unpaid bills to contractors. In addition, Andre Agassi and Steffi Graf dropped their plans for a resort hotel at Tamarack. Financial services employment will feel the pinch of the cooling housing market and tighter credit. DBSI, which specializes in real acquisitions, laid off 70 employees in Idaho. After expanding by an average of around 6.5% in both 2005 and 2006, financial service's payroll growth will average just 0.4% annually over the forecast period. Transportation, warehousing, and utilities sector employment stand to suffer from the fallout of the imploding housing market as well as high fuel prices. About 240 employees at the Alaska Airlines Reservation Center in Boise could lose their jobs as the airline reduces its number of flights by 15%. Information service employment should rise at a 1.7% annual pace. Employment in the other services category increases over the forecast period from 19,463 jobs to 22,304 jobs. Readers are reminded that other services employment sprinted at a nearly 25% pace due to a new employment survey that revealed there were more noncovered jobs in this sector than had been previously reported. This new data creates a series break that results in a one-time boost to the first quarter's growth rate. Total services employment is expected to increase 1.1% in 2008, 0.3% in 2009, 2.5% in 2010, and 4.0% in 2011. Prognostications for one of the weakest holiday shopping seasons in

years have led to fears that Idaho trade employment will repeat last year's disappointing showing. Final and preliminary data show Idaho trade employment shrank through the first three quarters of 2008. These losses were experienced at both the wholesale and retail level. Unfortunately, these fears are well founded, trade employment is expected to shrink both this year and next before rallying in the last two years of the forecast. Specifically, Idaho trade employment is forecast to drop 0.7% in 2008 and 0.2% in 2009, then rise 2.0% in 2010, and 1.7% in 2011.

Government: The outlook for government employment in the state has changed little from the last forecast. After experiencing a mid-decade growth spurt, Idaho state and local government employment growth is expected to slow noticeably over the forecast period. As in the previous forecast, this cooling is primarily due to the anticipated slowing of population growth. Traditionally, Idaho's population growth is driven by net migration. It grows fastest when net migration is strong and slowest when net migration is weak. The Gem State's booming economy in the 1990s was a major magnet drawing newcomers. As a result, the state's population increased nearly 30% from 1990 to 2000, with nearly two-thirds of this growth due to the surge in net immigration. Idaho's population grew slowly during the first years of the new millennium, but it picked up speed and averaged about 2.5% annual growth mid-decade. Idaho's economy is expected to cool noticeably over the next couple of years, and this should take a toll on migration. Specifically, after topping 20,000 new residents per year since 2005, migration is projected to drop below this threshold and remain there for the duration of the forecast. These lower migration levels suggest Idaho's population growth is likely to taper off during most of the next few years. This should ease the growing pains experienced at all levels of Idaho government and reduce the growth rate for government employment. It should be noted, however, that growths will vary by employment class. For example, Idaho state and local education-related employment is forecast to increase about 0.7% per year. Government administration-related payrolls, on the other hand, will advance about 0.4% annually. There are about 13,300 federal government jobs in Idaho. It should remain near this level throughout the forecast period except for 2010 when hiring associated with the U.S. census takes place early in that year.

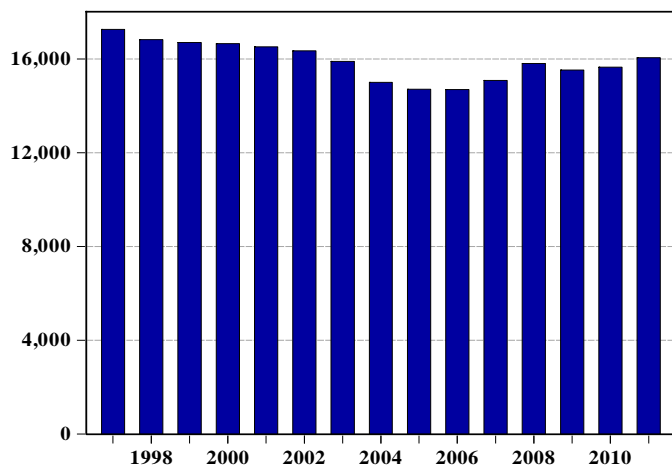
Idaho Government Employment



Mining: Idaho's mining sector employment is expected to begin slipping in 2009 after enjoying six consecutive years of growth. After suffering several years of decline, Idaho mining employment posted a 26-job gain in 2003. The modest increase would be the first in a series that would culminate with employment topping 2,800 jobs in 2008—its highest level in over a decade. This expansion was largely fueled by high metal prices. Kathryn Tacke, the Idaho Department of Labor's Regional Economist for North Idaho reported that at one time the prices of lead and zinc were so high that the Lucky Friday Mine could make a profit on sales of these two byproducts alone. However, the ore also contains silver, which has been selling for prices north of \$17 per ounce recently. These high prices have increased exploration activity in the state. U.S. Silver is exploring the potential of the Calladay project near its Galena Mine, the Dayrock lead-zinc mine, and the Gem State property near the Golconda District. SNS Silver is looking at the possibility of bringing the Crescent Mine near Kellogg back into production. The Crescent, which closed in the 1980s, lies between two of the world's greatest silver producers—the

Sunshine and Bunker Hill mines. It appears there are ample mineral supplies for further expansion. For example, the 65-year old Lucky Friday Mine has more silver in reserve than has been mined over the years and could be expanded for decades. But this sector's short-term fortunes will be driven more by economics than by geology. After exploding 7.0% in 2008, U.S. mining production is forecast to grow by less than 1.0% in each of the remaining years of the forecast. Also, the spot price of silver has fallen to about \$10 per ounce. Thus, it will be difficult for Idaho mining employment to continue expanding. As a result, mining employment is forecast to drop from a peak of 2,842 jobs in 2008 to 2,427 jobs in 2011. Despite this decline, employment will still be higher in 2011 than it was as recently as 2006.

Idaho Food Processing Employment



Food Processing: After experiencing several years of job losses, one of Idaho's cornerstone industries, food processing, is poised to reclaim the crown as the state's largest manufacturing employer. This sector's last employment peak was 17,300 jobs in 1997. Ironically, it was the same year the computer and electronics sector passed it to become Idaho's largest manufacturing employer. After that year, food processing employment shrank for several years as several of this sector's long-time employers began to curtail their local operations. For example, nearly 360 jobs were lost when the J.R. Simplot Company decided to close its Nampa meat packing plant in the fall of 2003 and shuttered its Heyburn potato

processing plant that had run continuously since 1960. More recently, about 400 jobs were lost when the Swift and Company beef processing plant closed. However, the passing of time suggests these painful contractions were not symptoms of this sector's demise, but part of its ongoing evolution. Already, new factories have replaced older ones. For example, the former Swift and Company beef processing plant has been reopened by XL Foods, Inc. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment could climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. Idaho Milk Products broke ground on a 180,000-square-foot facility in Jerome. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. Sorrento Lactalis is planning to add 40 to 50 manufacturing jobs when it completes its \$50-million whey processing plant. Idaho food processing employment is forecast to increase from 15,093 jobs in 2007 to just over 16,000 jobs in 2011. Along the way, in 2008, it will once again become the state's largest manufacturing employer.